



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 697** HLS 13RS 1543
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 3, 2013	2:56 PM	Author: JAMES
Dept./Agy.: Revenue		
Subject: Limit Net Operating Loss Deduction and Inventory Credit		Analyst: Greg Albrecht

TAX/INCOME TAX

OR INCREASE GF RV See Note

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Provides for the net operating loss deduction and the tax credit for inventory taxes paid

Current law allows corporate tax filers to apply current net operating losses to their positive net income in three prior tax years (carry-backs) and fifteen future tax years (carry-forwards), in order to reduce their taxable income in those years. Current law also provides a refundable tax credit for 100% o the local property taxes paid on inventory property.

Proposed law eliminates the net operating loss carry-back provision entirely and reduces the inventory credit to 75% of the amount of property taxes paid.

Effective January 1, 2014.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

The Department of Revenue would experience one-time costs to modify its tax processing systems to accommodate these changes, and likely have greater taxpayer inquiries to handle.

REVENUE EXPLANATION

The Department of Revenue attempted to get a sense of the effect of eliminating the net operating loss (NOL) carry-back provision by simulating corporate tax return liabilities with and without NOL carry-backs for a four year period. The average difference in liabilities resulting from this exercise was some \$37 million (ranging from \$19 million to \$66 million). Thus, without NOL carry-backs allowed, corporate tax receipts may typically be \$37 million per year higher than under current law (with substantial variation from year to year). However, the fifteen year carry-forward is still allowed, and the NOLs that would have been carried back to generate refunds that this bill eliminates, might be carried forward and utilized to reduce future tax payments.

The effective date of the bill (January 1, 2014) implies that NOLs for tax year 2014 (filed in spring 2015) would be the first ones not allowed to be carried back. For the near-term future after FY15, refunds generated by NOL carry-backs would not occur and net tax receipts would be greater. Eventually, though, greater use of NOL carry-forwards would result in less net tax payments in the future than would occur without this bill.

The inventory tax credit reduction of the bill may be more straightforward. Effective January 1, 2014 the credit allowed would be 75% of the local property tax paid. On tax returns filed in the spring of 2014 (FY14) some \$95 million of tax credit would not be realized against state tax receipts (1/4 of the FY12 claims used as an example). Net tax receipts would be that much greater. As inventory valuations grew, so would the net receipt gains from this component of the bill.

Senate

☐ 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}


☒ 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

Dual Referral Rules

House

☐ 6.8(F) >= \$500,000 Annual Fiscal Cost {S}

☐ 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}



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Legislative Fiscal Officer